



Auditor of Public Accounts
Adam H. Edelen

FOR IMMEDIATE RELEASE

Contact: Stephenie Steitzer
stephenie.steitzer@auditor.ky.gov
502.564.5841
513.289.7667

Edelen Releases Audit of Casey County Fiscal Court

FRANKFORT, Ky. – State Auditor Adam Edelen has released the audit of the financial statements of the Casey County Fiscal Court for the fiscal year ended June 30, 2011. State law requires annual audits of county fiscal courts.

The audit found that the county's financial statements, in all material respects, fairly present the county's assets, liabilities, and net assets arising from cash transactions and revenues received and expenditures paid in conformity with the modified cash basis of accounting.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The Fiscal Court should improve purchase and procurement procedures. Auditor's tested one hundred and thirty-six (136) expenditures from all of the Fiscal Court's budgeted funds and noted the following exceptions:

- One hundred-thirteen (113) invoices were not cancelled to prevent duplicate payments.
- Twenty-four (24) purchases for goods and services either did not have a purchase order issued or purchase order was not issued properly. (See comment 2011-02)
- Sixteen (16) invoices were not original invoices (fax or copy).
- Two (2) purchases for goods and services were not advertised for bid. (See comments 2011-08, 2011-09)
- Five (5) payments to vendors included overpayments of invoices totaling \$816.
- Eighteen (18) vendor payments had no evidence of Fiscal Court approval.
- Eight (8) payments were not paid within thirty (30) working days.

- One (1) credit card vendor payment included interest charges for not paying balance in full each month.
- Two (2) vendor invoices for road materials/paving were missing load/haul tickets to support vendor invoices.
- Three (3) vendor invoices for road material/paving included copies of load/haul tickets as support for vendor invoices.

Good internal controls dictate that adequate original supporting documentation be maintained for all receipts and disbursements. All invoices should be cancelled when paid to prevent duplicate payments. All original vendor invoices should be maintained including any supporting documentation which includes road materials load/haul tickets. All purchase orders should be approved and issued for all purchases except payroll and utilities. All purchase orders should be approved and issued before the purchases are made or the work or service is performed. All credit card balances should be paid off in full each month to avoid any interest charges. The Fiscal Court should approve all expenditures prior to payment.

Lack of proper accounting practices and internal control increase the risk that misstatements of financial activity and/or fraud will occur and go undetected by the Fiscal Court. Without proper procedures in place to mitigate this risk, the Fiscal Court is exposing public resources to potential misstatements and/or fraud.

We recommend the Fiscal Court maintain all original vendor invoices including any supporting documentation, cancel actual invoices upon payment to prevent duplicate payments, pay all credit card balances in full each month, and approve and issue purchase orders before purchases are made or the work or service is performed. We also recommend the Fiscal Court approve all expenditures before payment is made with the exception of any line items included on the Fiscal Courts annual standing order that has been approved by the Department for Local Government.

Casey County Judge/Executive's response: We have always made a claim sheet & marked the claim sheet paid with the ck # & date. This has been acceptable for 12 years. We have started stamping invoices. The 18 vendor payments were lease payments Fiscal Court voted to lease equipment, & monthly lease amount. The Credit Card due date has been changed to allow the amount to be paid before due date

Purchase orders should be prepared and approved for all expenditures. During auditor's test of expenditures, we noted purchase orders were either not issued or issued improperly for numerous purchases of goods and services for fiscal year 2011. As a result, this contributed to numerous problems noted in comment 2011-01. The Judge's Secretary and the road department Secretary (road department only) can approve purchase orders up to \$500, over that amount up to \$20,000 the Judge Executive has to approve; however, at the time of issuance no estimated dollar limit is included on the purchase order. The dollar amount on the purchase order is not entered until the invoice for the goods or services is received. Auditor also noted when purchase orders are issued no one accesses the disbursement ledger and bank account to verify there are adequate funds and budget appropriations available for the purchase.

Per the *Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual*, issued by the Department for Local Government (DLG) “purchases shall not be made prior to approval by the County Judge/Executive (or designee) or department head. Purchase requests shall indicate proper appropriation account number to which the claim will be posted. Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made”. In addition, a purchase order journal (listing) should contain a “daily, chronological listing of all purchase orders issued. The listing is the book of original entry for all county purchases. The journal should indicate the PO number, issue approved by appropriation account code to where the payment will be posted, vendor name, date invoice received, amount of invoice, date claim reviewed by fiscal court, date paid, and amount paid.”

We recommend that all purchase orders be approved and issued for all purchases of goods and services. In addition, we recommend the individual approving/issuing the purchase orders review the bank account balance and disbursements ledger to determine if there are adequate funds and budget appropriations available for the purchase. We also recommend that purchase orders and the purchase order listing include all the necessary information to ensure compliance with the Department for Local Government Policy Manual.

Casey County Judge/Executive's response: Budget transfers are approved as required before any claim is voted to be paid.

The jail canteen lacks an adequate segregation of duties. A lack of segregation of duties exists over all jail canteen accounting functions. The Jailer's bookkeepers receive the mail, collect money, issue receipts, prepare and deposit receipts, and write checks with no documented oversight by the Jailer. No bank reconciliations on bank accounts are prepared or reviewed. Adequate segregation of duties would prevent the same person or persons from having a significant role in the receiving process, recording, and reporting of receipts and disbursements. The Jailer should strengthen internal controls by either segregating the duties or by implementing and documenting compensating controls. If one employee is solely responsible for the receipt, disbursement, and reporting and reconciling process, the risk of misappropriation of assets and/or inaccurate financial reporting increases. We recommend the Jailer separate the duties in preparing and depositing receipts, recording transactions, preparing checks, and reconciling bank accounts. We also recommend the Jailer require two signatures on checks with one being the Jailer. If these duties cannot be segregated due to limited number of staff or budget, strong oversight should be provided over the employee(s) responsible for these duties. Any compensating controls performed should be documented with date and initials.

Casey County Jailer's response: I as Jailer have made the decision to help offset the cost and to save tax payer's money that one staff person is capable of preparing the required paper work for this operation of our jail. I have considered their recommendations of strengthening the internal controls by checking all disbursements and receipts to help with any errors that may occur. Also I have advised my canteen officer to order two lined checks so that two signatures can be placed on all checks. We are initialing and dating all receipts and invoices.

Casey County Judge/Executive's response: The official did not respond.

The Jailer should prepare an accurate annual jail canteen financial report and submit timely to county treasurer. During auditor's review of the Jail Canteen, we noted the individual responsible for accounting and reporting functions did not properly record all financial transactions in the accounting records. Therefore, the annual Jail Canteen financial report was not prepared properly. For fiscal year ended June 30, 2011, the financial report required material adjustments to properly report its operations.

We also noted the financial report was not prepared and submitted until the auditor's asked for it. Report was dated February 16, 2012, over seven (7) months after fiscal year ending June 30, 2011.

We recommend the Jailer ensure the Jail Canteen receipts and disbursements are properly recorded and accounted for and the annual Jail Canteen financial report is prepared properly and submitted to the County Treasurer timely after the end of the fiscal year.

Casey County Jailer's response: This oversight was due to the accounting software that was being used that did not provide us with the correct accounting forms. The canteen operator thought the reports that was on old software were producing the correct reports being provided by the service which was being used at the time of these errors. We have since put in new canteen software and the staff is being trained on the use of the new format and this should not be a problem in the future. Also the operator of the canteen knows the date that the report is to be submitted to the county treasurer.

Casey County Judge/Executive's Response: The official did not respond.

The Jailer should maintain accurate accounting records for the jail canteen account. During the testing of the Jail Canteen Account, auditors noted the following deficiencies:

- Daily checkout sheets did not include sufficient detail of receipts collected.
- Receipts journal did not include sufficient detail of receipts collected.
- Disbursements journal did not include all disbursements paid to vendors.
- Disbursements journal did not include sufficient detail of disbursements.
- Accurate Monthly bank reconciliations were not prepared.

The Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual outlines the following minimum accounting and reporting requirements pursuant to KRS 68.210:

- Detailed Daily Checkout Sheet
- Detailed Receipts Journal
- Detailed Disbursements Journal
- Jail Commissary Summary and Reconciliation

We recommend the Jailer comply with the above requirements by preparing detailed daily checkout sheets, posting detailed receipts daily to a receipts journal, and reconciling the daily checkout sheets to daily deposits and receipts journal, posting daily disbursements to a disbursement journal indicating what the disbursement is for, and preparing monthly bank

reconciliations. All these records should be reviewed periodically by a responsible individual and review documented by initials and date.

Casey County Jailer's response: Once again after speaking to canteen operator the software that was being used was not providing the necessary forms that are required. I have spoken to and gave all required forms to canteen operator. Have set up training this week with the new software people who assures me that all the required forms are in new software and that the canteen operator will be trained according to state requirements for reporting. We are taking all steps needed to make sure all forms will be completed daily.

Casey County Judge/Executive's response: The official did not respond.

Internal controls over jail canteen disbursements need to be strengthened. During auditor's testing of forty-two (42) Jail Canteen disbursements, we noted the following deficiencies:

- Thirty-nine (39) invoices showed no evidence of approval for payment.
- Fifteen (15) invoices were not cancelled to prevent duplicate payments.
- Thirty-two (32) disbursements for payment were not posted to a disbursements ledger.
- Only one signature on checks is required.

In addition, auditors noted the main Jail Canteen bank account had a negative account balance of \$1,962 on August 5, 2010.

We recommend that all invoices be approved before payment and that no payments be made unless there are sufficient funds in the Jail Canteen Fund bank account. Approval should be documented. All invoices should be cancelled (check number and date paid) to prevent duplicate payments. In addition, all disbursements should be posted to a disbursements ledger and the Jailer should require two signatures on checks with one being the Jailer.

Casey County Jailer's response: The Jailer has begun to look at all disbursements and date and initial all disbursements. Also the reason for the negative balance was the accounting was showing one balance and the bank another which when Jailer would ask how much money was in the account the canteen operator was reporting from the software figure. With new jail canteen software this will not be an issue in the future. Also all checks are being signed by Jailer and canteen officer.

Casey County Judge/Executive's response: The official did not respond

The Fiscal Court should improve recordkeeping and strengthen internal controls over the grant process. During auditors planning and testing of the Disaster Grant – Public Assistance Grant, we noted several internal control weaknesses and a lack of communication between the Federal Emergency Management Agency (FEMA) Applicant Agent and the County Judge/Executive's office.

Auditors noted the following:

- During the entrance conference auditors were told Fiscal Court did not expend \$500,000 or more in federal expenditures, therefore no single audit was required. However, during

testing of material accounts in the Revenue section of the audit, auditors noted both FEMA federal receipts and Natural Resources Conservation Service (NRCS) federal receipts posted as Miscellaneous Revenue in both the General and Road Fund. Upon further inquiry and investigation, the County Judge/Executive stated that he was unaware the NRCS expenditures were federal expenditures and would trigger a single audit. Auditor noted both FEMA and NRCS receipts were grant monies received in regards to May 2010 flooding. Auditors noted the Schedule of Federal Awards worksheet was completed by the County Treasurer on February 7, 2012.

- During the planning phase of the single audit, all FEMA documents/files were requested from the county's appointed FEMA Applicant Agent. Auditors were given a box, which contained all project worksheets, which were in no particular order. Auditor also noted supporting documentation (daily log sheets for labor and equipment, vendor invoices (with the exception of a rock vendor), FEMA rate schedules, payroll employee pay rate verification, cancelled checks verifying payment of invoices) was not included in the files. Therefore, auditors spent numerous hours with the County Treasurer gathering documentation in order to test expenditures. It was also noted the County Treasurer did not have copies of any of the original project worksheets and vendor invoices were filed as normal invoices.

Per the FEMA Applicant Handbook, "All of the documentation pertaining to a project should be filed together with the corresponding Project Worksheet and maintained by you as the permanent record of the project. What is important is that you have the necessary information readily available, and that this information is in a usable format." The community should "Maintain accurate disbursement and accounting records to document the work performed and the costs incurred." Therefore, in the future, we recommend Fiscal Court strengthen internal controls over the grant process and ensure accurate accounting records are properly maintained according to policies.

Casey County Judge/Executive's response: I believe all NRCS documents were in order & completed as required. FEMA projects are still ongoing & we are trying to follow guidelines.

The Fiscal Court should either deal directly with state price contract vendors or advertise for bid on purchases of equipment that exceed \$20,000 in compliance with KRS 424.260.

During auditor's review of expenditures, we noted the Fiscal Court purchased a 2010 Massey Ferguson 2670 tractor with cab and side mower for \$50,400 from a local vendor without bidding the purchase. There were three separate invoices from the local vendor: #1418 for \$19,985 dated 9/15/10, #1419 for \$18,643 dated 10/1/10, and #1420 for \$11,772 dated 11/1/10 of which the Fiscal Court paid in three separate payments to the local vendor. In addition, one invoice stated it was special government pricing. At that time, Wayne Supply Company held the state price contract for Massey Ferguson Tractors. The local vendor is not Wayne Supply Company. In order to use a vendor for any purchases over \$20,000, without bidding the purchase, a county must have done the following:

If the Fiscal Court has adopted the state's Model Procurement Code (KRS 45A.363-460) they have the option of:

1. Purchasing the tractor from the state price contract vendor.

2. Advertising for bids to negotiate a lower price.
3. Negotiating directly with a vendor as long as the final price does not exceed the state price contract.

If the Fiscal Court has not adopted the state's Model Procurement Code, only the first two options apply. Since the Fiscal Court has not adopted the state's Model Procurement Code, they should have bought the tractor directly from the vendor who held the state price contract or advertised for bids on the tractor.

We recommend the Fiscal Court deal directly with state price contract vendors or advertise for bids for all purchases of \$20,000 or more in accordance with KRS 424.260, if the Fiscal Court chooses not to adopt the states Model Procurement Code.

Casey County Judge/Executive's response: We received Governmental Discount on the Tractor & Mower. We purchased the above items separately and no item was over \$20,000. Any item under \$20,000 does not have to be bid.

Auditor's Reply: The total price paid for the tractor with side mower exceeded \$20,000 so it was required to be advertised for bid or purchased from the state price contract vendor.

The fiscal Court should advertise for bids on janitorial services over \$20,000 annually in accordance with KRS 424.260(1). During Auditor's review of expenditures, we noted the Fiscal Court did not advertise for bids for janitorial services exceeding \$20,000 for fiscal year 2011. According to the County Judge/Executive, this was advertised for bid in the prior fiscal year and the Fiscal Court renewed the service.

According to KRS 424.260(1) "Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, ...no county,... may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids". We recommend the Fiscal Court advertise for bids annually for janitorial services that exceed \$20,000.

Casey County Judge/Executive's Response: We extended the bid period (1) additional year at the same price, with understanding that this was O.K. We will bid out this service again this fiscal year.

The Fiscal Court should have amended the jail fund budget for refunding lease proceeds and the payoff of original debt. During Auditor's review of debt revenue and expenditures, we noted the Fiscal Court did not amend the Jail Fund budget for refunding lease proceeds of \$3,639,523 and payoff of original Jail Fund lease debt of \$3,594,423. In addition, these transactions were not monitored and included in the Fiscal Court's ledgers. As a result, we noted an overpayment of \$45,000 of the original lease debt. Subsequently, on April 26, 2012 the financial institution wired \$45,000 to the Fiscal Court's bank account.

KRS 68.280 states “The fiscal court may make provision for the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget, showing the source and amount of the unanticipated receipts and specifying the budget funds that are to be increased thereby. The amendment shall be submitted to the state local finance officer subject to the same provisions as the original budget.

The Fiscal Court was unaware that these lease proceeds and debt payoff were required to be amended into the budget and monitored since the funds were handled by third party financial institutions. We recommend in the future all refunding of debt and the payoff is budgeted, monitored, and posted to the ledgers as if the proceeds and the payment went through the Fiscal Court bank account. We also recommend Fiscal Court pay the \$45,000 refund on the new refunding lease debt principal.

Casey County Judge/Executive’s response: The refund will be paid on principal when the bonding agency & financial institution allows us to pay without penalty. This money will be in the Jail Fund for payment on bond issue.

The jailer should accurately prepare sales tax returns and submit timely to the Kentucky Department of Revenue. During the auditor’s review of Jail Canteen sales tax returns and payments, we noted the majority of sales tax returns were calculated incorrectly and were submitted late resulting in \$376 of penalties and interest for fiscal year 2011.

KRS 139.540 requires that sales taxes are due and payable to the Kentucky Department of Revenue “monthly and shall be remitted on or before the twentieth (20th) day of the next succeeding month.” KRS 139.550 requires a monthly return: “(1) On or before the twentieth day of the month following each calendar month, a return for the preceding month shall be filed with the department in a form the department may prescribe. (2) For the purposes of sales tax, a return shall be filed by every retailer or seller. ... (3) Returns shall be signed by the person required to file the return or by a duly authorized agent but need not be verified by oath ... (5) The return shall show the amount of taxes for the period covered by the return and other information the department deems necessary ...”

We recommend the Jailer review and approve all sales tax returns, documenting the review/approval with date and initials, and submit the returns on or before the twentieth (20th) day of the next succeeding month to the Kentucky Department of Revenue.

Casey County Jailer’s response: The Jailer is now reviewing all sales tax returns and signing off on them. The canteen officer was not aware of the reporting dates that the reports were to be filed. The new software has this report and is programmed to remind and print the sales tax document on a date that will give enough time to be submitted to State Revenue.

Casey County Judge/Executive’s response: The official did not respond.

The fiscal court should ensure compliance with activities allowed/allowable costs in accordance with OMB a-133, OMB a-110, and OMB a-102 common rule.

Federal Program: CFDA 97.036

Federal Agency: U.S. Department of Homeland Security/Federal Emergency Management Agency

Compliance Area: Activities Allowed/Allowable Costs

Questioned Costs: \$8,113

During auditors testing of compliance with Activities Allowed/Allowable Costs, we noted two (2) instances in which expenditures were either unallowable or the scope of work was not followed.

- Project Worksheet (PW) #577 – The scope of work per the PW called for the replacement of three (3) picnic tables and replacement of four (4) wood and steel park benches. The picnic tables were donated by a local individual and the benches were not replaced, but instead were reset in concrete. Per Federal Emergency Management Agency (FEMA), this is considered double billing and unallowable. Total Questioned Costs \$945.
- Project Worksheet (PW) #2314 – The scope of work per the PW called for replacement of a free standing concession stand at Gateway Park. Based upon testing and investigation, the free standing concession stand was neither replaced nor rebuilt. It appears the grant funds were used to repair the concession stand at the Community Center. Therefore, the scope of work was not followed resulting in questioned costs. Total Questioned Costs \$7,168.

OMB A-133 states “The allowed activities for the PA (Public Assistance) program are for the approved project as described on the PW and supporting documentation.” Therefore, in the future, we recommend Casey County Fiscal Court ensure that all federal expenditures are for allowable activities as described on the project worksheets.

Casey County Judge/Executive’s response: All moneys from FEMA were spent on Gateway Park, on restoring/repairing from flood damage. P.W. will be amended in the future for scope of work to be performed.

The Fiscal Court should comply with federal cash management and period of availability requirements in accordance with OMB a-133, OMB a-110 and OMB a-102 common rule.

Federal Program: CFDA 97.036

Federal Agency: U.S. Department of Homeland Security/Federal Emergency Management Agency

Compliance Area: Period of Availability and Cash Management

Questioned Costs: \$33,508

Per Kentucky Division of Emergency Management, specific deadlines for the grant were as follows:

Category A and B (Emergency Work): November 11, 2010

Category C thru G (Permanent Work): November 11, 2011

During Auditors testing of compliance with Period of Availability and Cash Management requirements, Auditors noted a breakdown in communication between the FEMA Applicant Agent and the County Judge Executive's (CJE) office. Auditors found a letter addressed to the FEMA Applicant Agent in the box with the Project Worksheets (PW) regarding time limits for projects and the CJE stated he had never seen the letter previously. We also noted Casey County Fiscal Court did not establish procedures to minimize the time between the transfer of Federal funds and the disbursement of those funds for program purposes. For example, four (4) projects in which funds were advanced but the scope of work was never completed therefore, the Period of Availability expired on the projects.

- Project Worksheet (PW) #578 – The scope of work per the PW called for the repair and patching of volleyball courts at Gateway Park. Based upon testing, as of audit date, only work completed was the purchase of two (2) volleyball nets. Auditors performed site visit and noted the two volleyball courts were not functional and the nets were not in use. Advanced grant funds were received on December 28, 2010. The time limit for Category G (Permanent Work) was November 11, 2011 therefore; the Period of Availability for the project has expired. Therefore, the federal portion of the PW amount is considered questioned costs. Total Questioned Costs \$5,412.
- Project Worksheet (PW) #2313 – The scope of work per the PW called for the repair and patching of the basketball and tennis courts at Gateway Park. Based upon inquiry and testing, it appears none of the scope of work has been completed as of audit date. Advanced grant funds were received on June 3, 2011. The time limit for Category G (Permanent Work) was November 11, 2011 therefore; the Period of Availability for the project has expired. Therefore, the federal portion of the PW amount is considered questioned costs. Total Questioned Costs \$5,962.
- Project Worksheet (PW) #2358 – The scope of work per the PW called for the repair of Liberty Lake Road. The City of Liberty repaired the road. Auditors reviewed supporting documentation verifying work as completed. Casey County Fiscal Court received the grant funds to repair the road but did not complete the scope of work. Therefore, the federal portion of the PW amount is considered questioned cost. Total Questioned Costs \$4,139.
- Project Worksheet (PW) #2405 – The scope of work per the PW called for the repair of the Community Center administrative office. The time limit for Category G (Permanent Work) was November 11, 2011 therefore; the Period of Availability for the project has expired. Auditors performed site visit and noted office repairs were still in progress as of audit date. Therefore, the federal portion of the PW amount is considered questioned cost. Total Questioned Costs \$17,995

OMB A-133 states “When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement.” Based upon the three instances above, it appears the time lapse between transfer of funds and disbursement is unreasonable.

OMB also states “Federal awards may specify a time period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period...” Per the FEMA Public Assistance Policy Digest “All time frames are set by regulation: however, if extenuating circumstances or unusual project conditions exist, a time extension may be requested through the state. If not changing the scope of work or cost, the State has the authority to extend the time frames for completion of permanent work by 30 months.”

Also, per Kentucky Division of Emergency Management letter re. Project Completion Dates “If a time extension is needed, you must submit a written request...Your request must include why the extension is needed, the project worksheet number(s), disaster number, and the estimated completion date.”

In the future, we recommend Fiscal Court comply with Period of Availability requirements and ensure that either all projects are completed within the required time limits or a written request for time extensions be submitted to Kentucky Division of Emergency Management containing all required information. We also recommend Fiscal Court establish procedures to ensure compliance with Cash Management requirements, minimizing the time lapse between transfer of funds and disbursement.

Casey County Judge/Executive’s response: This work is still scheduled to be done. Extensions have been filed, hopefully to allow this work to be done.

The [audit report](#) can be found on the auditor’s website.

###

The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

For more information, visit auditor.ky.gov and follow Auditor Edelen on Twitter @AuditorKY, facebook.com/AuditorKY and youtube.com/AuditorKY. Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.